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SUBJECT: CODEL Stevens: U.S.-China Inter-Parliamentary Dialogue

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SUMMARY

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1. (SBU) CODEL Stevens, accompanied by the Ambassador, discussed issues including Taiwan, North Korea, Lebanon, China's defense policy, energy security, intellectual property rights (IPR), the exchange rate and bilateral trade with members of the Chinese National People's Congress (NPC) in Guilin, China during the third annual U.S.-China Inter-Parliamentary Group (IPG) dialogue. (See paragraph 28 for the Participant List). The CODEL urged that China do more to address problems including the North Korean nuclear issue, the lack of transparency in China's military buildup and the need for improved IPR protection in China. NPC members emphasized that that United States and China share important strategic interests. End Summary.

2. (SBU) NPC Vice-Chairman and Secretary-General Sheng Huaren led off the opening session of the Inter-Parliamentary Group dialogue by noting that U.S.-China relations enjoy positive momentum. The United States and China share important strategic interests, but allowances should be made in handling sensitive questions. Senator Stevens cited the importance of continuing meaningful exchanges of views and cooperation. Senator Inouye added that increasing mutual awareness is the key to maintaining constructive bilateral relations and peace in the region.

TAIWAN

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3. (SBU) Sheng expressed appreciation for U.S. adherence to a one China policy, U.S. opposition to unilateral changes to the status quo and U.S. ?imposition of some constraints? on Taiwan independence. Sheng stated that Chen Shui-bian is ?deeply trapped in scandal? and has ?no credibility to speak of.? He cited concerns that Chen may be pushed, out of desperation, to attempt to declare Taiwan independence. NPC Foreign Affairs Committee Chairman Jiang Enzhu said that Chen's stubborn adherenc to independence perpetuates cross-straits tensions. Jiang noted that Taiwan's Democratic Progressive Party (DPP) and the Taiwan Solidarity Union (TSU) are planning to put forward a new draft constitution in September. He warned that this constitutional re-engineering was ?most dangerous? and said he hoped the U.S. would help restrict moves towards Taiwan independence. He cautioned against Congress sending the wrong signal to Taiwan on this issue. Jiang told the

Senators that China wants peaceful unification, economic development and stability.

¶4. (SBU) Senator Stevens stated that the United States adheres to its one China policy and does not support Taiwan independence. He urged China to be patient on the Taiwan issue. Senator Inouye noted that the United States is aware of China's efforts militarily ?in space, in the ocean, and on land,? and cautioned that such activities should be undertaken carefully and transparently.

#### ECONOMIC ISSUES

¶5. (SBU) CODEL Stevens and the NPC members stressed the importance of the economic relationship to the health of the overall bilateral relationship, noting that the U.S.-China economic relationship has a global impact. Jiang said that China's long-term strategic goal is peaceful economic development, improving Chinese citizens' standard of living. Jiang noted that while China's GDP is about USD 2.22 trillion, its per capita GDP is only USD 1,700. Rural-urban income disparities are still a problem, as is the need to create job opportunities for 150 million ?redundant employees.? Sheng added that 100 million Chinese still live on less than one dollar per day. China must deal with serious pollution, health care, and energy resource issues. Jiang estimated that it would take several generations for China to fully achieve modernization and characterized China's development as an opportunity, not a challenge or a threat.

¶6. (SBU) NPC Financial and Economic Affairs Committee Vice-Chairman Zhou Zhengqing acknowledged U.S. concerns

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over the growing trade imbalance but stressed that both the United States and China have benefited from the increase in trade between the two nations. U.S. companies are responsible for a large portion of Chinese exports to the United States and are reaping profits from the trade. Zhou stressed that China does not seek to perpetuate its trade surplus, which is a result of globalization, trade liberalization and attendant industrial restructuring. Sheng said he hoped that the U.S. would relax its restrictions on high tech trade with China and its import quotas on Chinese goods.

¶7. (SBU) Senator Stevens emphasized the need to establish controls on distant water fleets, which can do considerable damage to the oceans. He cited Alaska's scientific management of ocean species as a model. On civil aviation, Senator Stevens said that the development of ?mosquito fleets? (small, low-cost aircraft with ranges of approximately 1,200 miles) would be a new form of transportation that may pose a challenge to maintaining control of airspace.

¶8. (SBU) Senator Cochran stressed the importance of protecting intellectual property rights (IPR), reminding the NPC members of China's TRIPs and bilateral commitments in this area. He noted China's efforts to enforce compliance to date, including a recent crackdown on 14 factories that produced pirated CDs, and encouraged further actions. Citing the effect of currency valuation on U.S. manufacturing, Senator Cochran encouraged further moves toward a flexible renminbi (RMB) exchange rate. He noted that China imports USD 1.4 billion in U.S. cotton and USD 1 billion in U.S. soybeans and stated hopes for expansion of U.S. beef and poultry exports to China. He raised the importance of port and shipping security and lauded China's participation in the Container Security Initiative (CSI).

¶9. (SBU) Noting President Hu Jintao's recent visits to Boeing and Microsoft in Washington, Senator Murray expressed appreciation for China's recent purchases of

Boeing aircraft. She noted China's efforts to ensure proper software licensing, especially on Chinese Government computers, but expressed concern over draft laws and standards that might discriminate against foreign products. Senator Alexander reiterated the need for enhanced IPR protection, noting in particular the problem with artist royalties. Increasingly, there will be U.S.-China collaboration in the sciences and the arts, and the results of these collaborative efforts must be protected.

¶10. (SBU) Senator Specter stated that trade and economic development requires international peace and stability, as well as a strong judicial system. In discussing the need for stable judicial institutions, Senator Specter raised the case of a Chinese-American librarian detained in China and the need for greater protection of human rights. The Senator spoke about the separation of powers in the U.S. system and recent U.S. Supreme Court decisions. In Pennsylvania, there are concerns about dumping of subsidized steel from China, he said. The Senator concluded by urging China to refrain from blocking internet sites that do not violate laws or pose explicit threats.

#### RMB EXCHANGE RATE

¶11. (SBU) Zhou Zhengqing noted that since July 2005, China has implemented a "floating" rate of exchange for the RMB based on a basket of foreign currencies. Since that time, the RMB has appreciated 3.7 percent against the dollar. Zhou remarked that a faster appreciation is neither workable for China nor a viable solution for the U.S. trade deficit. Zhou cited the example of the rapid appreciation of the Japanese yen and the resultant economic stagnation. Zhou suggested that the trade imbalance could be solved by "altering the economic structure" in the United States, increasing the U.S. savings rate and increasing high tech exports to China. He cautioned that a rush to alter the RMB exchange rate would lead to economic losses on both sides.

#### INTELLECTUAL PROPERTY RIGHTS

¶12. (SBU) NPC Law Committee Vice-Chairman Hu Kangsheng detailed China's efforts to comply with its legal

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obligations regarding IPR and its successes in IPR enforcement. Hu said China has committed itself to its TRIPS obligations and revised judicial interpretations, patent, trademark and copyright laws. China has made considerable progress in enacting legislation to protect and nurture IPR. China established the IPR Working Group in 2004, has conducted anti-piracy public awareness campaigns, established special IPR tribunals and has increased the number of prosecutions of IPR-related crimes. IPR cases involving Borland, Colgate, Crest, and Hugo Boss were specifically mentioned. China has made efforts to improve communication on IPR issues with investors and Chambers of Commerce.

¶13. (SBU) Sheng added that the NPC and the Government plan to strengthen IPR protection laws. Sheng admitted the Chinese legal system is not perfect, that the market system needs improving, and that the Chinese Government understands the importance of punishing IPR violators. Sheng urged any Senators who have information on IPR violations to bring it to his attention so he can forward it to the appropriate department. He hoped this would help convince the Senators that the NPC is "serious and proactive" on IPR issues. Senator Stevens thanked Vice-Chairman Sheng and committed to taking him up on his offer regarding IPR violations.

THE MIDDLE EAST

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¶14. (SBU) Senator Stevens stated that radical, militant, Muslim forces not controlled by governments, most prominently Al-Qaeda, are the biggest threat to international security. The Senator noted apparent coordination of attacks in Iraq and the Hezbollah attacks in Lebanon. Stressing the dangers of supporting extremist elements, he urged China to change its policies with regard to countries such as Iran and Venezuela. Senator Dayton stated that conflicts in the Middle East, Lebanon in particular, show that the destructive power of conventional weapons makes citizens less secure. The use of such weapons can set a country's economic progress back by decades.

¶15. (SBU) Senators Specter and Stevens questioned the NPC members concerning a media report that the missile that hit an Israeli ship in the Mediterranean was manufactured in China and possibly modified in Iran. While Senator Specter emphasized that this was only a media report, he stressed that Iran is a known supporter of terrorism with ties to Hezbollah and that Chinese arms sales to certain countries are a concern. Senator Stevens stated that it was clear that Hamas and Hezbollah have received considerable weaponry from Iran. The U.S. policy is to stop trading with countries that transfer weapons to third parties, he said. What would China do if this media report on the missile were true? The Chinese delegation avoided a direct response. Foreign Affairs Committee Vice-Chair Lu Congmin said that China has been "prudent" and "very responsible" in its export of arms. China exports a "limited number of conventional weapons" to sovereign nations and urges these nations not to transfer them to third parties. Lu commented that both the United States and China need to be careful in exporting any type of weapons so as not to pose a threat to international security.

¶16. (SBU) Lu stated that in the UN Security Council, China has expressed its deep concern about the conflict in Lebanon. China calls on all sides to cease fire immediately and engage in discussions. China has no problem with the current draft of the UNSC resolution, but it hopes the U.S. and France can make adjustments which will help ensure full implementation. China is willing to stand with the U.S. to find a text that is acceptable to all sides.

DPRK

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¶17. (SBU) Senator Specter stated that North Korea is a threat to peace and international stability and that the United States needs China's assistance in dealing with the DPRK. While the Senator said that the USG policy is multilateral talks, some Senators felt that direct talks should be undertaken. Senator Dayton warned that if the DPRK or Iran develops nuclear weapons, the situation could

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go "beyond the point of no return." The lack of progress in the Six-Party Talks is alarming and destabilizing, he said. The Senator urged U.S.-China cooperation to prevent nuclear proliferation and protect existing nuclear stockpiles to prevent possible terrorist use.

¶18. (SBU) Jiang stated that China opposed the DPRK missile test. UN Security Council Resolution 1695 sends a clear message to the DPRK. All parties need to maintain dialogue and build mutual trust. China and the United States have a common strategic interest in stability and a peaceful resolution of these issues. Jiang said the Six-Party Talks are at an impasse. The DPRK says it is committed to implementing the September Joint Statement from the Talks, but will not return to the Six-Party Talks while the "financial sanctions" are in place. Jiang said that China

is working on North Korea concerning these issues and stated that "we should not sacrifice the greater issue for a lesser issue." He said China is willing to cooperate in creating an environment for a DPRK return to the Six-Party Talks.

#### CHINA'S DEFENSE POLICY

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¶19. (SBU) NPC Standing Committee and Foreign Affairs Committee Member Li Yuanzheng said China has a peaceful foreign policy and that its military intent is transparent. Li stated that China has not a single soldier or military base abroad. China will not use nuclear weapons and opposes an arms race, Li said. He suggested that the five nuclear powers should conclude a no first strike agreement. China believes in post-emptive strikes and will never launch a pre-emptive attack. Li acknowledged increases in China's defense spending and pointed to U.S. statements citing China as a potential military threat. Li asserted that, given China's long land borders and problems with Taiwan, Tibet and "East Turkestan" elements, any increase in defense spending is normal. Li said that the increase will go to raising soldiers' pay and purchasing fuel and more modern equipment. China's 2006 defense budget of USD 35 billion is only 1.5 percent of China's GDP and only 7 percent of the total national budget. Li speculated that China may be as much as 20 years behind the United States militarily.

¶20. (SBU) Senator Inouye said that relations can falter because of misinformation, rumors and innuendo. The Senator stated that we know China is developing a submarine-launched nuclear missile, a carrier aircraft wing and advanced space instruments. The Senator said that these are not defensive weapons. Li responded by saying that China has an "active defense" policy. Senator Stevens added that the U.S. has forces in 121 countries and the United States protects our (and China's) trade routes. U.S. forces protect freedom in general. The United States wants China to have a strong military so China can help maintain peace and stability in the world.

#### ENERGY SECURITY

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¶21. (SBU) Senator Inouye emphasized shared interests in bilateral energy cooperation and development of new technologies. Senator Coleman noted that China is expected to double its energy consumption by 2020 and said that China's oil dependency could have a negative impact on U.S.-China relations, if it involves dealings with countries that foment instability and violate international norms and treaties, such as Iran. It is essential for the United States and China to develop alternative and renewable energy sources, such as wind, solar, biofuel, hydrogen fuel cells, clean coal, and nuclear fusion.

¶22. (SBU) NPC Internal and Judicial Affairs Committee Member Sun Jinlong gave a presentation on China's energy production and consumption, including production of 2.19 billion tons of coal and 180 million tons of oil per year, accounting for 90 percent of China's energy consumption. Sun noted that China only consumes 8 percent of the world's supply of oil and that China's energy consumption is no threat to world consumption. Nevertheless, China is giving priority to energy efficiency measures and hopes to reduce pollution and energy consumption per unit of GDP. The trend for the 21st century is towards alternative and renewable energy sources and China plans to increase

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nuclear power generation from the current 16,000MW to 40,000MW by 2020.

¶23. (SBU) Chinese Academy of Sciences Institute of Plasma



Physics Vice-President Wu Songtao made a detailed presentation on China's efforts to develop nuclear fusion. Wu outlined the benefits of fusion as opposed to fission reactors in regards to safety, waste disposal, and fuel limitations. Wu explained the need for further research to achieve controllability and sustainability of a fusion reaction. He speculated that a commercially viable fusion reactor could be available by 2050. Wu invited CODEL members to visit the Institute of Plasma Physics facility in Hefei, Anhui Province.

¶24. (SBU) Senator Burr emphasized the need for adequate, predictable, and affordable energy streams today and in the near future. In the near term, oil prices need to become more affordable and we need to ensure adequate supplies for both China and the United States, the Senator said. He stated that nuclear power generation is essential for the immediate future. Senator Burr stressed that the government can be the source of seed money, can set goals and give direction, but that the private sector is essential to making things a reality. Senator Coleman mentioned that in the United States, the maximum capacity for ethanol production is about 16 billion gallons. With additional cooperation and collaboration between the U.S. and China, cellulosic ethanol production could jump to 60 billion gallons.

#### TIBET -----

¶25. (SBU) NPC Internal and Judicial Affairs Committee Vice-Chairman and Chinese Buddhist Association Vice-President Jia Muyang delivered a prepared speech on Tibet and the Qinghai-Tibet railway, stating that Tibetans welcome the railway and that it is important for the economic and social development of the region. Government-funded railway construction was completed a year ahead of schedule and President Hu presided over the inauguration ceremonies in July. The railway demonstrates the unity of Chinese minorities, he claimed, but stated that "some people" have expressed unhappiness with the railway. He characterized this latter group as "ethnic secessionists" led by the Dalai Lama.

#### AVIAN FLU -----

¶26. (SBU) NPC Education, Science, Culture, and Public Health Committee Vice-Chairman Sang Guowei outlined China's efforts to prevent avian flu outbreaks and to prepare response measures in case of an outbreak. Sang said that the current avian flu situation in China is stable. China has optimized its laws, increased disease monitoring and reporting, engaged in intense research to develop a vaccine and implemented culling of birds, according to Sang.

¶27. (SBU) Senators Stevens and Inouye thanked their Chinese hosts and Senator Stevens suggested that the IPG expand to include Japan for trilateral discussions. Sheng did not respond directly to the suggestion, noting only that the IPG should continue on a long-term basis and that the next round should be in the United States.

#### PARTICIPANTS -----

¶28. (U) U.S. Participants:  
Senator Ted Stevens, IPG Co-Chairman  
Senator Daniel Inouye, IPG Co-Chairman  
Ambassador Clark T. Randt, Jr.  
Senator Thad Cochran  
Senator Arlen Specter  
Senator Patty Murray  
Senator Mark Dayton  
Senator Lamar Alexander  
Senator Norm Coleman  
Senator Richard Burr  
Senate Staff

Interpreters  
Notetaker

Chinese Participants:

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Sheng Huaren, IPG Chairman  
Jiang Enzhu, IPG Executive Chairman  
Hu Kangsheng, Legal Affairs Committee Vice-Chair  
Lu Congmin, Foreign Affairs Committee Vice-Chair  
Zhou Zhengqing, Finance and Economic Affairs Vice-Chair  
Jia Muyang, Internal and Judicial Affairs Committee Vice-Chairman and Chinese Buddhist Association Vice-President  
Sang Guowei, Education, Science, Culture, and Public Health Committee Vice-Chairman  
Li Yuanzheng, Foreign Affairs Committee  
Sun Jinlong, Internal and Judicial Affairs Committee  
Wu Songtao, Chinese Academy of Sciences Institute of Plasma Physics Vice-President  
Xin Chunying, NPC Deputy  
Ni Yuefeng, NPC Deputy  
Fang Xin, NPC Deputy  
Wang Wanbin, NPC Deputy

129. (U) CODEL Stevens cleared this message.

RANDT